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Timeline
2006-2008

Sample Size
1,193 existing ADOPEM clients

Data Repository
https://www.aeaweb.org/articles.php?doi=10.1257/app.6.2.1

Research Implemented by IPA
Yes

Keeping it Simple: Financial Literacy and Rules of Thumb in the Dominican Republic

Key Finding Summary

Micro-entrepreneurs in the Dominican Republic were 6 – 12 percentage points more likely to keep accounting records, and maintain separate books for business and personal expenses when they were offered financial education training based on simple rules-of-thumb.

Abstract

A simplified financial training based on “rules of thumb” improved business practices and outcomes among microentrepreneurs in the Dominican Republic, while standard, fundamentals-based accounting training produced no significant effect.

Policy Issue

Recent work in the area of development finance has focused on poverty reduction through microfinance institutions (MFIs). These institutions are thought to enable entrepreneurship by providing small personal loans to borrowers who otherwise would have difficulty accessing capital markets, but new entrepreneurs are also faced with complex financial decisions for which they may be unprepared. Studies have shown that there is a strong association between higher financial literacy and better business decisions and outcomes, but there is little evidence on the best ways to quickly convey complex financial practices to business owners. Should courses place more weight on conveying every aspect of complex materials, or teaching basic concepts in greater depth?

Context of the Evaluation

In the Dominican Republic, ADOPEM is a savings and credit bank which serves primarily low-income urban individuals and small businesses. They offer loans of US$70 – US$1,400 to both individuals and groups, and also operate a training center with programs covering basic computing, entrepreneurship, and trade skills. Many clients operate small businesses with few or no employees, including enterprises such as general stores, beauty salons, and food services, which bring in an average of US$85 per week. Many ADOPEM clients have been found to have errors in their accounting books, and relatively few individuals kept their business and personal accounts separate.

Details of the Intervention

Researchers partnered with ADOPEM to evaluate two methods of financial literacy training: one which emphasized classic accounting principles, and one which focused on simple "rule of thumb" methods for decision making. From a pool of 1,193 ADOPEM clients who had expressed interest in financial training, two-thirds were assigned to receive five to six weeks of training, which was offered once a week for three hours at a time and included out-of-class assignments. These classes were taught by qualified local instructors with experience in adult education, and were offered for free or nearly free. Two variations of the training were tested:

Accounting Treatment: This program was adapted from financial education models designed by Freedom From Hunger and the Citigroup Foundation, and focused on a traditional, principles-based approach to accounting techniques. It covered topics such as daily record keeping of cash and expenses, inventory management, accounts receivable and payable, and calculating cash profits, and investment.

Rule of Thumb Treatment: This treatment taught participants simple rules for financial decision making, focusing on the need to separate business and personal accounts. It taught clients about paying oneself a fixed salary, distinguishing between business and personal expenses, and easy-to-implement tools for reconciling accounts.

Additionally, a randomly selected subset of each treatment group received weekly follow-up visits from a financial counselor, in an effort to distinguish between the effects of having learned the material and the effects of actually implementing it regularly in business practices. Counselors visited participants and answered any questions they had about course material, verified and encouraged completion of accounting books, and helped correct any mistakes that they found.

Results and Policy Lessons

Effects on Business Practices: Results indicate that the “rule of thumb” treatment had significant effects on clients’ business practices. The likelihood that clients were separating business and personal cash and accounts, keeping accounting records, and calculating revenues formally increased by 6 percent to 12 percent relative to the comparison group. By contrast, the accounting treatment seems to have had no impact on business practices.

Effect on Revenue Streams: Participants in the "rule of thumb" treatment reported an increase of 0.11 standard deviations on an index of revenue measures. The most significant effect is observed in the level of sales during bad weeks. The "accounting" treatment had no impact on revenues.

There was no discernible impact of receiving follow-up visits from counselors on either treatment group. There were, however, some differences in treatment effects across various groups. Training had a larger effect on more educated clients’ likelihood to separate business and personal cash and likelihood to save. Additionally, the “rule of thumb” treatment also had a larger impact on people who had not expressed great interest in accounting training. This suggests that charging fees or making training programs optional may not target programs to those who will benefit most.
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